LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6167 **DATE PREPARED:** Feb 11, 2001
BILL NUMBER: SB 515 **BILL AMENDED:**

SUBJECT: Tax Credit for Low Income Elderly Homeowners.

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FUNDS AFFECTED: **X** **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill provides a property tax credit to homestead owners who are at least 65 years of age and who have adjusted gross incomes of less than $30,000. It provides that the credit for an individual with no adjusted gross income is equal to one-half of the net property tax bill on the individual's homestead, and provides that the credit is phased out as the individual's adjusted gross income approaches $30,000. The bill provides that the property tax credit is payable from the Property Tax Replacement Fund and it appropriates money from the fund to pay for the property tax credits.

Effective Date: January 1, 2002.

Explanation of State Expenditures: Beginning with taxes payable in CY 2003, this proposal would permit homeowners who are least 65 years of age by December 31 of the assessment year to file a statement with the county auditor claiming a credit against their net property tax bill. The credit would be pro-rated based on income. The maximum credit would be equal to one-half of a taxpayer's net property tax bill for a taxpayer with no adjusted gross income (AGI). The credit would be phased out completely by the time that a taxpayer's AGI reaches $30,000.

Estimation Issues: In estimating the impact of this bill, it was assumed that the currently proposed real property assessment rule will be used to revalue property for the next reassessment. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

The total cost estimate in this analysis may be low. Currently available data does not allow more exact measurements of the reassessment tax increases on the specific homes owned by the elderly. These homes may be older and could experience a larger increase than the average under the proposed real property assessment manual.

Fiscal Analysis: In CY 2003, the net property tax to be paid by all homeowners age 65 and over regardless of income is estimated to be at least $269 M. Using sample data, it was estimated that the average person who qualifies for the credit would receive a credit of 29.6%. Assuming a 2% growth in net tax rates after CY 2003, the dollar amount of the credit under this bill is estimated to be at least $79.5 M in CY 2003, $81.1 M in CY 2004, and $82.7 M in CY 2005. On a fiscal year basis, the cost of the credit to the state is estimated to be at least $39.8 M in FY 2003 (½ year), $80.3 M in FY 2004, and $81.9 M in FY 2005.

This credit would be paid from the Property Tax Replacement Fund (PTRF). This fund is annually supplemented by the General Fund to meet obligations. An increase of expenditures from the PTRF would ultimately impact the General Fund.

Explanation of State Revenues: The credit would also reduce the cost of the state income tax deduction for homestead property tax payments up to $2,500. This deduction was enacted by P.L. 273 -1999 and is effective for tax years beginning January 1, 1999. Since the property tax bills for those taxpayers that qualify for this new property tax credit would be reduced under this bill, the amount of the income tax deduction that they would qualify for would also be reduced. The reduction in the amount claimed would result in gain in state revenue estimated to be at least $2.7 M each in FY 2004 and FY 2005. Revenue from the Adjusted Gross Income Tax is deposited in the General Fund.

The net cost of the property tax credit to the state (credit cost less income tax gain) is estimated to be at least $39.8 M in FY 2003, $77.6 M in FY 2004, and $79.1 M in FY 2005. This impact assumes that all eligible recipients of the proposed credit will file for the credit as soon as it would be effective.

A person who knowingly or intentionally files a false claim under this provision would be obligated to pay back the amount of falsely obtained credits plus interest for deposit into the PTRF.

Explanation of Local Expenditures: Local governments would be responsible for printing and processing the claim forms for the credit. This would create an indeterminable cost increase for the County Auditor's offices.

Explanation of Local Revenues: There would be no impact on local tax revenues. Local units of government would continue to receive the same total tax revenues, regardless of the source.

State Agencies Affected: State Board of Tax Commissioners; Indiana Department of State Revenue.

Local Agencies Affected: County Auditors.

Information Sources: Property Tax Analysis, State Board of Tax Commissioners; Local Government Database; Consumer Expenditure Survey, U.S. Bureau of Labor and Statistics.